

MONROE COUNTY SCHOOL DISTRICT

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YEAR ENDED JUNE 30, 2005

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MONROE COUNTY SCHOOL DISTRICT

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**GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Monroe County School District as of and for the year ended June 30, 2005, which collectively comprises the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date October 15, 2005, on our consideration of the Monroe County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Monroe County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Monroe County School District. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
October 15, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

**MONROE COUNTY BOARD OF EDUCATION
TOMPKINSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

As management of the Monroe County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The Management's Discussion and Analysis (MD&A) is a new reporting form adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Government issued in June, 1999.

MISSION STATEMENT:

With the support of parents, school, and community, the mission of the Monroe County School District is to provide a comprehensive learning environment for children to prepare for lifelong learning and achievement in a changing society and a complex world.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$2,197,918 in the General Fund; \$27,574 in Capital Outlay; \$128,116 in Building Fund; \$7,109,030 in Construction Fund; \$135,068 in Food Service, and \$48,705 in Daycare.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies. The District utilizes bidding through the GRREC (Green River Regional Education Cooperative), KEDC (Kentucky Educational Development Corporation, and state and federal bidding opportunities for the purchase of supplies and food.
- The board initiated one (1) construction projects in fiscal year 2005. Bonds were issued for the district for an Energy Performance Contract for buildings in the school district, which project is overseen by Ameresco. The issuance of the 2005 energy bond issue caused the District's total debt to increase by \$1,745,000 during the current fiscal year. The District's total bond debt increased by \$860,000 during the 2005 fiscal year.
- The board is committed to increasing certified and classified salaries to 100% of the regional average salary for certified and classified personnel by the year 2007. Certified and classified personnel were given a 3% pay raise.
- The General Fund had \$12.3 million in revenue, which primarily consisted of the state program SEEK (Support Educational Excellence in Kentucky) which is the state formula for funding schools, property, local occupational license taxes, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$12.5 million in General Fund expenditures.
- The board continues to maintain a scheduled bus fleet rotation by approving the purchase of three (3) new buses through a KISTA bond issue. The total acquisition cost for the three (3) vehicles was \$178,422.

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2005**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. This is state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8.2 million as of June 30, 2005.

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2005**

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005 and 2004

The following table shows net assets for 2005 and 2004:

	2005			2004		
	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Current Assets	\$ 5,078,357	\$ 201,452	\$ 5,279,809	\$ 9,839,001	\$ 269,822	\$ 10,108,823
Noncurrent Assets	<u>22,576,022</u>	<u>762,975</u>	<u>23,338,997</u>	<u>20,412,685</u>	<u>782,072</u>	<u>21,194,757</u>
Total Assets	\$ 27,654,379	\$ 964,427	\$ 28,618,806	\$ 30,251,686	\$ 1,051,894	\$ 31,303,580
Current Liabilities	\$ 1,875,590	\$ 1,088	\$ 1,876,678	\$ 1,702,424	\$ -	\$ 1,702,424
Noncurrent Liabilities	<u>18,500,679</u>	<u>-</u>	<u>18,500,679</u>	<u>18,107,658</u>	<u>-</u>	<u>18,107,658</u>
Total Liabilities	\$ 20,376,269	\$ 1,088	\$ 20,377,357	\$ 19,810,082	\$ -	\$ 19,810,082
Net Assets						
Investment in Capital Assets (net of debt)	\$ 3,200,603	\$ 762,975	\$ 3,963,578	\$ 1,683,345	\$ 782,072	\$ 2,465,417
Restricted	2,804,542	-	2,804,542	7,109,030	-	7,109,030
Unreserved Fund Balance	<u>1,272,965</u>	<u>200,364</u>	<u>1,473,329</u>	<u>1,649,229</u>	<u>269,822</u>	<u>1,919,051</u>
Total Net Assets	<u>\$ 7,278,110</u>	<u>\$ 963,339</u>	<u>\$ 8,241,449</u>	<u>\$ 10,441,604</u>	<u>\$ 1,051,894</u>	<u>\$ 11,493,498</u>

Comments on Budget Comparisons

- The General Fund's total revenues were \$12.3 million, higher than budgeted by \$3.2 million. The expenditures of the General Fund amounted to \$12.5 million or \$1.5 million higher than budgeted. After considering transfers and adjustments, the fund balance decreased by \$295,074.
- The Special Revenue Fund's total revenue was \$2.8 million, higher than budgeted by \$38,416. Expenditures totaled \$2.9 million, higher than budgeted by \$67,878.

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2005**

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2005 and June 30, 2004.

	<u>2005</u>			<u>2004</u>		
	<u>Government Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Program Revenues:						
Charges for services	\$ -	\$ 592,128	\$ 592,128	\$ -	\$ 508,941	\$ 508,941
Operating grants	2,857,942	782,304	3,640,246	4,238,852	740,525	4,979,377
General revenues:						
Taxes	2,145,556	-	2,145,556	2,141,989	-	2,141,989
State aid formula grant	11,569,490	-	11,569,490	10,204,274	-	10,204,274
Investment earnings	169,385	4,036	173,421	321,609	7,566	329,175
All other	<u>69,905</u>	<u>-</u>	<u>69,905</u>	<u>149,044</u>	<u>-</u>	<u>149,044</u>
Total Revenues	\$16,812,278	\$ 1,378,468	\$18,190,746	\$17,055,768	\$ 1,257,032	\$18,312,800
Program Expenses:						
Instruction	\$13,424,376	\$ -	\$13,424,376	\$10,572,779	\$ -	\$10,572,779
Student support	539,909	-	539,909	485,094	-	485,094
Instruction staff	893,624	-	893,624	489,382	-	489,382
District administration	421,602	-	421,602	327,607	-	327,607
School administration	966,377	-	966,377	948,051	-	948,051
Business support	205,621	-	205,621	294,988	-	294,988
Plant operations	1,695,447	-	1,695,447	1,505,086	-	1,505,086
Student transportation	885,447	-	885,447	650,009	-	650,009
Community support	239,133	-	239,133	305,244	-	305,244
Interest on long-term debt	704,236	-	704,236	703,072	-	703,072
Food service	-	1,227,163	1,227,163	-	1,013,283	1,013,283
Day care	-	<u>239,860</u>	<u>239,860</u>	-	<u>243,823</u>	<u>243,823</u>
Total Expenses	<u>\$19,975,772</u>	<u>\$ 1,467,023</u>	<u>\$21,442,795</u>	<u>\$16,281,312</u>	<u>\$ 1,257,106</u>	<u>\$17,538,418</u>
Net Increase in Assets	<u>\$(3,163,494)</u>	<u>\$ (88,555)</u>	<u>\$(3,252,049)</u>	<u>\$ 774,456</u>	<u>\$ (74)</u>	<u>\$ 774,382</u>

Governmental Activities

Instruction comprises 67% of governmental program expenses in 2005 versus 65% in 2004. Support services expenses make up 29% of government expenses compared with 31% for the prior year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2005**

	<u>2005 Governmental Activities</u>		<u>2004 Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$13,424,376	\$11,417,516	\$10,572,779	\$ 7,188,504
Support services	5,847,160	4,996,078	5,005,461	4,150,884
Interest on long-term debt	<u>704,236</u>	<u>704,236</u>	<u>703,072</u>	<u>703,072</u>
Total Expenses	<u>\$19,975,772</u>	<u>\$17,117,830</u>	<u>\$16,281,312</u>	<u>\$12,042,460</u>

Business-Type Activities

The business-type activities include the food service and day care operations. These programs had total revenues of \$1,378,468 and expenses of \$1,467,023 for fiscal year 2005. Of the revenues, \$592,128 was charges for services, \$782,304 was from State and Federal grants, and \$4,036 was from investment earnings. Business activities receive no support from tax revenues.

Capital Assets

At the end of fiscal year 2005 the School District had \$23.3 million invested in land, buildings, equipment, and construction in progress. The following table shows fiscal year 2005 balances:

**Capital Assets at June 30, 2005
(Net of Depreciation)**

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Depreciation</u>	<u>Balance June 30, 2005</u>
Governmental Activities					
Land	\$ 496,690	\$ 35,000	\$ -	\$ -	\$ 531,690
Land Improvements	89,061	-	-	(13,211)	75,850
Building & Improvements	15,351,746	-	(1,196)	(421,615)	14,928,935
Technology	323,063	154,634	(40,178)	(130,650)	306,869
Vehicles	569,857	37,756	(41,254)	(112,879)	453,480
Equipment	138,433	39,820	-	(25,358)	152,895
Construction in Progress	<u>3,443,835</u>	<u>\$ 2,682,468</u>	<u>-</u>	<u>-</u>	<u>6,126,303</u>
Total Governmental Activities	\$20,412,685	\$ 2,949,678	\$ (82,628)	\$ (703,713)	\$22,576,022
Business-Type Activities					
Building & Improvements	\$ 735,898	\$ -	\$ -	\$ (18,496)	\$ 717,402
Technology	1,581	1,513	-	(2,972)	122
Equipment	<u>44,593</u>	<u>7,603</u>	<u>-</u>	<u>(6,745)</u>	<u>45,451</u>
Total Business-Type Activities	<u>\$ 782,072</u>	<u>\$ 9,116</u>	<u>\$ -</u>	<u>\$ (28,213)</u>	<u>\$ 762,975</u>
Total Governmental & Business-Type	<u>\$21,194,757</u>	<u>\$ 2,958,794</u>	<u>\$ (82,628)</u>	<u>\$ (731,926)</u>	<u>\$23,338,997</u>

**MONROE COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED
YEAR ENDED JUNE 30, 2005**

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$460,020 in contingency (5%).

The beginning General Fund cash balance for beginning the 2005 fiscal year is \$2.2 million. Significant Board action that impacts the finances included a 2% pay raise for all certified and classified employees and general fund matching dollars for other grants. The district currently participates in approximately 35 state and federal grants. The total budget for these grants is \$2.8 million. These grants are funded on a reimbursement basis which means that the district must pay for the grant expenses upfront and request reimbursement from the state. As of June 30, 2005, the district was due reimbursement in the amount of \$568,756. Applying for grant reimbursements and monitoring the grants is something the district must do constantly. While waiting for grants to be reimbursed, the district must maintain a significant cash balance in order to pay these expenses in advance.

Local property tax revenue makes up approximately 8% of the general fund revenue. Property taxes are levied annually usually in October on the assessed value for all real and personal property in the district as of January 1st of the prior year. However, this revenue is not received until the months of November – February which means that the general fund's beginning balance is used to pay much of the first few months of expenditures. It is very important to have a substantial beginning balance to start the beginning of each year. The district had a beginning fund balance of \$2.2 million or 25% of the general fund revenue budget.

Questions regarding this report should be directed to the Superintendent, George Wilson, or to Kathy Haile, Director of Financial Services, ((270) 487-5456 or by mail at P.O. Box 10, Tompkinsville, Kentucky 42167.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

FUND FINANCIAL STATEMENTS

MONROE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statement	\$ 4,751,532
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	22,576,022
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(20,049,444)</u>
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Net assets for governmental activities	<u>\$ 7,278,110</u>
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MONROE COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ (4,753,748)
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.	2,245,965
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Bond and capital lease payments are recognized as expenditures of current Financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,030,499
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Bond Interest Payments	20,145
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Sick Leave Payments	(78,031)
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Bond Issues	(1,745,000)
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Bond Issuance Cost and Discount	59,850
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All Other	<u>56,826</u>
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Change in net assets of governmental activities	<u>\$ (3,163,494)</u>
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MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Monroe County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Monroe County School District. The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Monroe County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board also include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Monroe County School District Finance Corporation – In July 1985, the Monroe County, Kentucky, Board of Education resolved to authorize the establishment of the Monroe County School District Finance Corporation (a non-profit, non-stock, public, and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The board members of the Monroe County Board of Education also comprise the Corporation’s board of directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 41. This is a major fund of the District.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund of the District.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Day Care Fund is used to account for day care activities provided by the School District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. There was one private purpose trust fund in Monroe County for the fiscal year ended June 30, 2005.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005, to finance the General Fund operations were \$.387 per \$100 valuation for real property, \$.399 per \$100 valuation for business personal property and \$.562 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
General equipment	5-15 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for construction projects.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, \$475,556 of the District's bank balance of \$6,006,551 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ <u>475,556</u>
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NOTE D - LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Monroe County School District Finance Corporation (1987, 1994, 1998, refunding 1997, of 1998, 2001, 2003, 2004 and 2005 issues).

The original amount of each issue, the issue date, and interest rates are summarized below:

1987	\$ 525,000	5.00 – 6.5%
1994	275,000	3.75 – 6.0%
1998	1,250,000	3.5 - 4.3%
1997	4,595,000	3.75 - 4.80%
1998	3,440,000	4.2 - 4.5%
2001	3,225,000	4.0 - 5.0%
2003	2,780,000	2.0 – 4.5%
2004	5,390,000	2.9 – 4.4%
2005	1,745,000	2.4 - 4.3%

The District, through the General Fund, (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Monroe County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE D – LONG-TERM OBLIGATIONS CONTINUED

On December 22, 2004 the District issued Energy Conservation Revenue Bonds for \$1,745,000 with an average interest rate of 2.4% to 4.3%. Final payment, assuming no call before maturity, will be December 1, 2022.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2005 for debt service (principal and interest) are as follows:

	Monroe County Board of Education			Kentucky School Facilities Construction Commission			Requirements For Year Total
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2005-06	469,476	481,945	951,421	510,524	203,948	714,472	1,665,893
2006-07	475,312	465,480	940,792	529,688	181,753	711,441	1,652,233
2007-08	495,061	448,038	943,099	504,939	158,351	663,290	1,606,389
2008-09	518,896	429,406	948,302	526,104	136,664	662,768	1,611,070
2009-10	537,425	410,430	947,855	572,575	113,185	685,760	1,633,615
2011-15	3,003,241	1,764,238	4,767,479	1,006,759	395,584	1,402,343	6,169,822
2016-20	3,739,976	1,193,961	4,933,937	920,024	191,046	1,111,070	6,045,007
2021-25	<u>4,051,571</u>	<u>442,366</u>	<u>4,493,937</u>	<u>403,429</u>	<u>35,485</u>	<u>438,914</u>	<u>4,932,851</u>
	<u>\$13,290,958</u>	<u>\$5,635,864</u>	<u>\$18,926,822</u>	<u>\$4,974,042</u>	<u>\$1,416,016</u>	<u>\$6,390,058</u>	<u>\$25,316,880</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2005, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amounts Due <u>Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$17,405,000	\$ 1,745,000	\$ 885,000	\$18,265,000	\$ 980,000
Accrued sick leave	<u>328,948</u>	<u>-</u>	<u>78,031</u>	<u>250,917</u>	<u>62,204</u>
Governmental Activities:					
Long-term liabilities	<u>\$17,733,948</u>	<u>\$ 1,745,000</u>	<u>\$ 963,031</u>	<u>\$18,515,917</u>	<u>\$ 1,042,204</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE E – RETIREMENT PLANS

The Monroe County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

The Monroe County Public School District's total payroll for the year was \$10,398,165. The payroll for employees covered under KTRS was \$7,646,997. For the year ended June 30, 2005, the Commonwealth contributed \$878,779 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2005 were \$123,360, which represents those employees covered by federal programs.

NOTE F - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE G - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE H – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE I – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

MONROE COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE J – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Governmental Activities:				
Land	\$ 496,690	\$ 35,000	\$ -	\$ 531,690
Land improvements	307,355	-	-	307,355
Buildings and building improvements	22,456,123	-	-	22,456,123
Technology equipment	1,704,075	154,634	(470,181)	1,388,528
Vehicles	1,824,555	37,756	(53,569)	1,808,742
General equipment	372,655	39,820	(114,089)	298,386
Construction	<u>3,443,835</u>	<u>2,682,468</u>	<u>-</u>	<u>6,126,303</u>
Totals at historical cost	<u>\$30,605,288</u>	<u>\$ 2,949,678</u>	<u>\$ (637,839)</u>	<u>\$32,917,127</u>
Less Accumulated Depreciation For:				
Land	\$ -	\$ -	\$ -	\$ -
Land improvements	218,294	13,211	-	231,505
Buildings and building improvements	7,180,326	421,615	-	7,601,941
Technology equipment	1,417,924	130,650	(468,985)	1,079,589
Vehicles	1,141,387	112,879	(13,391)	1,240,875
General equipment	<u>234,672</u>	<u>25,358</u>	<u>(72,835)</u>	<u>187,195</u>
Total accumulated depreciation	<u>\$10,192,603</u>	<u>703,713</u>	<u>(555,211)</u>	<u>10,341,105</u>
Governmental Activities Capital Net	<u>\$20,412,685</u>	<u>\$ 2,245,965</u>	<u>\$ (82,628)</u>	<u>\$22,576,022</u>
Proprietary Activities:				
Buildings and building improvements	\$ 924,788	\$ -	\$ -	\$ 924,788
Technology equipment	26,753	1,514	-	28,267
Vehicles	-	-	-	-
General equipment	<u>357,936</u>	<u>7,603</u>	<u>-</u>	<u>365,539</u>
Totals at historical cost	<u>\$ 1,309,477</u>	<u>\$ 9,117</u>	<u>\$ -</u>	<u>\$ 1,318,594</u>
Less Accumulated Depreciation For:				
Buildings and building improvements	\$ 188,889	\$ 18,497	\$ -	\$ 207,386
Technology equipment	18,368	2,972	-	21,340
Vehicles	-	-	-	-
General equipment	<u>320,148</u>	<u>6,745</u>	<u>-</u>	<u>326,893</u>
Total accumulated depreciation	<u>\$ 527,405</u>	<u>\$ 28,214</u>	<u>\$ -</u>	<u>\$ 555,619</u>
Proprietary Activities Capital Net	<u>\$ 782,072</u>	<u>\$ (19,097)</u>	<u>\$ -</u>	<u>\$ 762,975</u>

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 534,872
Student support services	13,370
Staff support services	7,223
District administration	3,246
School administration	16,298
Business support services	3,075
Plant operation & maintenance	19,897
Student transportation	103,284
Central office	477
Community service operations	<u>1,971</u>
Total	<u>\$ 703,713</u>

MONROE COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance or net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

FSPK Fund	\$ 126,744
SEEK Capital Outlay	27,422
General Fund	295,074
Construction	4,304,488
Food Service	43,230
Day Care	45,325

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M – BUDGETARY COMPARISONS

Actual figures for the general fund, food service and day care include on-behalf payments of \$2.7 million which were assigned to the District's expenditures after the budget was prepared. Revenue from the state was raised by the same amount with no impact on fund equity.

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	General	Debt Service	Bond Payment	\$ 25,181
Debt Service	General	Debt Service	Lease Payments	145,499
Operating	General	Special Revenue	Operating	49,462
Operating	Construction	General	Operating	140,158
Debt Service	FSPK	Debt Service	Debt Service	700,411
Operating	FSPK	Construction	Operating	240,248
Debt Service	SEEK	Debt Service	Bond Payment	171,127
Operating	SEEK	Construction	Operating	<u>36,575</u>
Total				<u>\$1,508,661</u>

NOTE O – CAPITAL LEASES

The following is a schedule by year of the future minimum lease payments under capital lease (primarily buses and copier machines) together with the present value of the new minimum lease payments as of June 30, 2005.

MONROE COUNTY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

NOTE O – CAPITAL LEASES CONTINUED

	<u>Capital Lease Payable</u>
2006	83,453
2007	71,602
2008	66,690
2009	59,274
2010-14	<u>201,791</u>
Total Minimum Lease Payment	\$ 482,810
Less: Amount Representing Interest	<u>(61,979)</u>
Net Value of Minimum Lease Payment	\$ <u>420,831</u>

The net book value of the capital lease assets as of June 30, 2005 is \$279,333.

NOTE P – INTERFUND RECEIVABLE AND PAYABLES

There were no interfund receivables and payables at June 30, 2005.

NOTE Q – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The government-wide financial statements include \$2,706,423 of on-behalf payments and fringe benefits paid by the state. \$431,132 is for vocational education, \$1,396,512 is for health insurance, and \$878,779 is for pension benefits.

NOTE R – SUBSEQUENT EVENTS

The District issued Series Bonds in the amount of \$1,345,000 dated July 1, 2005 with interest ranging from 3.0% to 4.2%. The last bond, assuming no early redemption, will be paid July 1, 2025.

NOTE S - RECLASSIFICATIONS

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

HIGH SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MONROE COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Monroe County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2005, the District received commodities totaling \$54,559 for the fiscal year ending June 30, 2005.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

NONE

MONROE COUNTY SCHOOL DISTRICT

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2005**

NONE

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Monroe County School District as of and for the year ended June 30, 2005, which collectively comprise Monroe County School District's basic financial statements and have issued our report thereon dated October 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Monroe County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Monroe County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Monroe County School District in a separate letter dated October 15, 2005.

This report is intended solely for the information and use of the audit committee, management, Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
October 15, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223

Members of the Board of Education
Monroe County School District
Tompkinsville, Kentucky

Compliance

We have audited the compliance of the Monroe County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Monroe County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Monroe County School District's management. Our responsibility is to express an opinion on Monroe County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monroe County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Monroe County School District's compliance with those requirements.

In our opinion, Monroe County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Monroe County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Monroe County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Members of the Board of Education
Monroe County School District

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is reportable a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of audit committee, management, Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
October 15, 2005

COMMUNICATION WITH DISTRICT BOARD

GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223

State Committee for School District Audits
Members of the Board of Education
Monroe County Board of Education
Tompkinsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Monroe County School District as and for the year ended June 30, 2005, which collectively comprises the District's basic financial statements, as listed in the accompany table of contents, and have issued our report thereon dated October 15, 2005. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated August 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, do not indicate matters that could have a significant effect on the District's financial reporting process. In addition, management has made all adjustments proposed by us.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
October 15, 2005

MANAGEMENT LETTER

**GOODMAN & COMPANY, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS
10357 LINN STATION ROAD
LOUISVILLE, KENTUCKY 40223**

Members of the Board of Education
Monroe County School District
Tompkinsville, KY

In planning and performing our audit of the basic financial statements of Monroe County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 15, 2005, contains our report on the District's internal control structure. This letter does not affect our report dated October 15, 2005, on the financial statements of the Monroe County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in the further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

GOODMAN & COMPANY, P.S.C.
Certified Public Accountants
October 15, 2005

MANAGEMENT LETTER POINTS

MANAGEMENT LETTER POINTS

Prior Audit Management Letter Points

1. There seemed to be a lack of clarity by the various persons administering federal programs as to the requirements mandated by the various governing authorities. While no violations were noted, it is suggested one person be assigned responsibility to keep abreast of the changing requirements and apprising the various persons in charge of the programs concerning these changes.

Management Response

The State & Federal Programs Director will be responsible for reviewing federal programs to ensure the District is in compliance with the various governing authorities.

2. The district at year-end had bank balances that exceeded the collateral and collateral held by pledging banks.

Management Response

The amount of cash at year-end was exceptionally high because of funds deposited in the construction fund. Our cash balances now are well below the coverage provided by the bank's collateral. We will nevertheless monitor this very closely in the future to avoid a reoccurrence.

3. The field audit revealed most school activity locations have only two persons involved in the process compared with the requirement by the Accounting Procedures for Kentucky School Activity Funds.

Management Response

Attached to the monthly school activity reports is the bank reconciliation which is sent to the central office and reviewed and placed in the monthly board books for all board members and superintendent to see. We believe this served as a third party.

Status of Prior Management Letter Points

1. One person has been assigned responsibility for state and federal programs.
2. The District, as of last year, had bank balances that exceeded the collateral held by pledging banks.
3. The District appears to have addressed the requirements as stated in the Accounting Procedures for Kentucky School Activity Fund concerning bank reconciliations.

Current Year Management Letter Points

1. As stated in item #2, the District had bank balances that exceeded the collateral held by pledging banks.

Management Response

The District had large balances of cash at year end and since this date the collateral held by pledging banks had increased and exceeds the balances of the District. This will be observed closely in the future to avoid a recurrence.

